Ramco Systems Limited

April 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based/CC	35.00	35.00	[ICRA]A-; Reaffirmed Outlook revised from Stable to Positive
Short term fund based	65.00	85.00	[ICRA]A2+; Reaffirmed
Short term non fund based	25.50	25.50	[ICRA]A2+; Reaffirmed
Unallocated	10.00	20.00	[ICRA]A-/[ICRA]A2+; Reaffirmed Outlook revised from Stable to Positive
Total	**135.50**	**165.50**	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook takes into consideration the robust order book position supported by sustained order flows, which is expected to drive improvement in financial profile of the company going forward. ICRA also takes note of the growing diversification across geographies and segments and improvement in order size witnessed in recent years. The company has been shifting from on premise model to a cloud based model in recent years, wherein in some contracts the upfront revenue is lower compared to on premise model. However, the increasing share of cloud based orders is expected to aid the company in gaining market share in a competitive market. Nonetheless, there has also been an increase in unbilled revenue on account of the company providing extended credit period to some customers, wherein the license fee is recognized upfront. With growing orderbook and increasing unbilled revenues, the working capital requirements have witnessed increase leading to higher debt utilization. However, the capital structure and coverage indicators remain healthy and the trend is expected to be continued as the company benefits from revenue recognition and improved cash flows from existing orders.

The ratings also take into consideration RSL's long track record and established presence in the enterprise resource planning (ERP) business, long term association with its clientele comprising of leading global companies across diversified verticals, favourable long term demand outlook for ERP products especially for cloud based solutions and financial flexibility arising from being part of the Ramco group, with demonstrated track record of financial support in the past. The company's ability to gain market share and improve its profitability and maintain the bad debts at normal levels, while implementing the changes in its business model remains a rating sensitivity factor.

ICRA also takes note of the high Research & Development (R&D) requirements that necessitates periodic investments, which are capitalized and result in high amortization expenses. The ratings remain constrained by competition from much larger players in the segment, high working capital intensive nature of operations, susceptibility to exchange rate volatility, risk of employee attrition and vulnerability to changes in policies of domestic and foreign governments with regards to IT industry, in-line with the broader IT industry.

Outlook: Positive

The Positive outlook reflects ICRA's belief that RSL would continue to generate healthy revenue growth supported by robust order flow with the operating margins witnessing further improvement. The outlook may be revised to Stable/Negative if the company witnesses lower than expected order flows or any impact on financial profile arising from cost increases, increase in bad debt levels, and stretch in working capital cycle or higher than expected debt funded capex.

Key rating drivers

Credit strengths

Long track record of nearly three decades and established presence in the ERP segment - Incorporated in 1997, RSL has an established track record of nearly three decades and strong presence in ERP business. The company offers customised Human Capital Management (HCM) and ERP solutions for various industries and has developed considerable expertise in catering to the aviation and logistics sector. The overall growth prospects for both the domestic and global cloud-based ERP segment remain favourable, on the back of increasing demand from SMEs as well as large corporate entities.

Diversified customer base comprising of reputed companies – The company has an established customer base comprising of reputed companies from diverse sectors. RSL has very high customer diversification with repeat orders from large clients including industry majors even as the company continues to add healthy number of new customers every year.

Financial flexibility arising from being part of the Ramco group – Ramco Group of Companies has diverse interests in cement, cotton, synthetic yarn, building products, software solutions, clean energy and biotechnology etc. RSL derives financial flexibility from being a part of the Ramco Group with a demonstrated track record of financial support received in the past.

Comfortable financial risk profile – RSL's debt profile comprises of only working capital debt which witnessed increase from Rs. 5.00 crore as on March 31, 2017 to Rs. 38.00 crore as on March 31, 2018 and further to Rs. 70.49 crore as on September 30, 2018. However the gearing levels continue to remain healthy at 0.12x as on September 30, 2018. The other coverage and debt protection metrics such as TD/OPBDITA and Interest cover also remain comfortable at 1.0x and 22.8x times respectively as on September 30, 2018.

Healthy order book position ensures revenue visibility – The company has been receiving healthy orders across the segments during the last few fiscals especially for Global payroll solutions in HCM segment and Logistics solutions in ERP segment. The unexecuted order book stood at $168 million USD as on December 31, 2018 at a robust 2.18x times of 12-month trailing revenues of the company. This indicates healthy revenue visibility in the near to medium term for the company.

Credit challenges

High Competitive intensity – RSL faces intense competition from large established players such as SAP SE, Oracle Corporation, Workday Inc, Netsuite Inc and Plex Systems Inc, amongst others, which limits its pricing flexibility and puts pressure on its margins.

Exposure to forex risk – RSL's profit margins are susceptible to volatility in forex rates and have been impacted by forex gain/(loss) arising from the same in the past. Although some of the losses may be just mark to market provisions, which might be reversed subsequently. The company tries to mitigate the risk to an extent by timing the receivables from its subsidiaries and also by repaying the outstanding PCFC debt using exports proceeds.

High working capital intensity resulting from high receivables and unbilled revenues - The company's operations are working capital intensive in nature on account of high debtor days generally in the range of 90-93 days. The working capital profile of the company also consists of considerable unbilled revenues. The increase in unbilled revenues in recent years has been on account of the Company providing extended credit period in several cases in respect of license fees, which would become due for payment over a period ranging upto 60 months. As a result the working capital intensity of the company remains high in the range of 38% - 40% levels.

High R&D spend – RSL incurs significant capex every year mainly towards R&D expenses which is capitalised. This R&D expenditure if debt funded can put some pressure on the capital structure.

Vulnerable to industry risks such as employee attrition, adverse changes in government policies etc. - The company is also exposed to broader IT industry risks such as high employee attrition and adverse changes in foreign and domestic government policies etc. However the risk is mitigated to an extent due to high geographical diversification of the company.

Liquidity Position:

RSL's liquidity position is expected to remain comfortable supported by healthy cash accruals, cash balance and unutilized working capital facilities, despite high capital investment requirements for research and development. RSL derives further liquidity comfort from the significant financial flexibility with lenders arising from being part of Ramco Group of companies.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Group Company: Ramco Group The ratings factor in the financial flexibility derived from being part of Ramco Group of companies
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Ramco Systems Ltd. As on March 31, 2018 the company has 13 subsidiaries and 1 associate company which are listed in Annexure-2

About the company:

RSL was initially set up as a division of RIL in 1989 and was spun off into an independent entity in 1999. Headquartered in Chennai, RSL is a leading cloud-based technology company with global operations. It is engaged in providing Enterprise Resource Planning (ERP), Human Capital Management (HCM) and Aviation Maintenance & Engineering (M&E) & Maintenance Repair & Overhaul (MRO) software to its customers across the globe. It is part of the reputed Ramco group of companies, a diversified conglomerate with interests in cement, cotton, and synthetic yarn, fibre cement roofing sheets, software solutions, clean energy and biotechnology among others.

During 9m FY2019, on a provisional basis, the company reported a net profit of Rs. 7.9 crore on an operating income of Rs. 400.7 crore (Consolidated).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	449.2	469.2
PAT (Rs. crore)	10.7	11.4
OPBDIT/OI (%)	4.7%	15.8%
RoCE (%)	-5.5%	6.2%
Total Debt/TNW (times)	0.01	0.07
Total Debt/OPBDIT (times)	0.26	0.51
Interest coverage (times)	14.68	56.50

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Apr 2019	Date & Rating in FY2018 April 2018	Date & Rating in FY2017 Jul 2017	Date & Rating in FY2016 Mar 2016
1	Cash Credit	Long Term	35.00	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	EPC/PCFC/WCDL	Short Term	85.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	LC/Bank Guarantees	Short Term	25.50	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term/ Short Term	20.00	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	35.00	[ICRA]A-(Positive)
NA	EPC/PCFC/WCDL	NA	NA	NA	85.00	[ICRA]A2+
NA	LC/BG	NA	NA	NA	25.50	[ICRA]A2+
NA	Unallocated	NA	NA	NA	20.00	[ICRA]A-(Positive)/[ICRA]A2+

Source: Ramco Systems Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Ramco Systems Corporation, USA	98.00%	Full Consolidation
Ramco Systems Ltd, Switzerland	100.00%	Full Consolidation
Ramco Systems Pte. Ltd, Singapore	100.00%	Full Consolidation
Ramco Systems Sdn. Bhd., Malaysia	100.00%	Full Consolidation
RSL Enterprise Solutions (Pty) Ltd., South Africa	100.00%	Full Consolidation
Ramco Systems Canada Inc., Canada	98.00%	Full Consolidation
Ramco Systems FZ-LLC, Dubai	100.00%	Full Consolidation
RSL Software Co. Ltd., Sudan	100.00%	Full Consolidation
Ramco Sytems Australia Pty Ltd., Australia	100.00%	Full Consolidation
Ramco Systems Inc., Philippines	100.00%	Full Consolidation
Ramco Systems (Shanghai) Co. Ltd., China	100.00%	Full Consolidation
Ramco System Vietnam Company Limited, Vietnam	100.00%	Full Consolidation
PT Ramco Systems Indonesia, Indonesia	100.00%	Full Consolidation
City Works Pty. Ltd., South Africa	30.00%	Equity Method of Consolidation

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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